

Scottish Government Non- Domestic Rating Account

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for the Scottish Government

June 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit risks and planned work

1. The Non-Domestic Rating Account, prepared by the Scottish Government, reports all non-domestic rates collected by local authorities and paid over to Scottish Ministers and the redistribution to local authorities. The purpose of the account is to demonstrate that all non-domestic rates collected are redistributed to local authorities. The Scottish Government determines the amount to be redistributed to councils as part of the Scottish Budget. Non-domestic rates collected by local authorities are audited locally.

2. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#).

3. We fully recognise the unique and significant pressures that the public sector is under in responding to the threat posed by the current Covid-19 pandemic. Our approach to audit during the pandemic aims to be flexible, pragmatic and consistent. It will be some time before we fully understand the impact on public services and finances but it is clear that sound financial management and effective governance are more important than ever. Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances and we will prioritise quality and independence.

4. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

5. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money. Audit Scotland considers that the importance of wider audit scope work on the dimensions of financial management, financial sustainability and governance has never been greater than during the current crisis. The level of audit reporting may alter to reflect current circumstances for example, where it has not been possible to carry out planned work or where an issue has taken on greater significance than in previous years.

Adding value

6. We aim to add value to the Scottish Government through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

7. Based on our discussions with staff, and a review of supporting information we have identified the following significant risks for our audit of the Scottish Government Non-Domestic Rating Account. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

8. We undertook the majority of our planning work prior to the Covid-19 pandemic and the draft audit plan was shared with the Scottish Government in March

2020. We have since revisited the draft plan to consider the potential impact of the Covid-19 pandemic on our audit approach for 2019/20. The ongoing uncertainty created by the pandemic and the current restrictions imposed means we may be required to make further changes to the planned audit approach and timetable. We will continue our regular engagement with the Scottish Government to discuss how we can work together to respond to this unprecedented situation.

Exhibit 1

2019/20 Significant audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates.

Source: Audit Scotland

9. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 because the Non-Domestic Rating account is run as a pool with notional balances being collected and distributed. Any differences between the collection and distribution are then adjusted through the Revenue Support Grant. This means that no income is collected or banked.

10. In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2019/20. As noted above, the Non-Domestic Rating account is run as a pool with notional balances being collected and distributed. Any differences between the collection and distribution are then adjusted through the Revenue Support Grant (RSG). RSG payments are made directly to the 32 local authorities. There is documentation detailing how payments are calculated and this is publicly available. Also, Non-Domestic Rates returns submitted to the Scottish Government by local authorities are audited separately.

Reporting arrangements

11. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

12. We will provide an independent auditor's report to the Scottish Government, Scottish Parliament and the Auditor General for Scotland, setting out our opinions on the Non-Domestic Rating Account. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing

observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	June 2020	22 June 2020
Independent Auditor's Report	23 September 2020	22 September 2020
Annual Audit Report	11 September 2020	22 September 2020

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2019/20 audit of the Scottish Government Non-Domestic Rating Account is £11,350 [2018/19: £11,130]. In determining the audit fee we have taken account of the risk exposure of the Non-Domestic Rating Account, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 26 June 2020. The current restrictions imposed in responding to the pandemic mean that the nature of audit activity will inevitably change as auditors are required to work remotely. We will continue to liaise with Scottish Government staff about how they can best provide us with the information required for our audit work in these circumstances.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Assurance and Audit Committee and Accountable Officer

15. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

16. The audit of the financial statements does not relieve management or the Scottish Government Assurance and Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

17. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

Audit scope and timing

Financial statements

18. The statutory financial statements audit will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the Scottish Government Non-Domestic Rating Account and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how these will be included in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

19. We will give an opinion on whether the financial statements:

- properly present the receipts and payments for the financial year and the balances held at the year end;
- have been properly prepared in accordance with relevant legislation, the applicable financial reporting framework and other reporting requirements.

Statutory other information in the financial statements

20. We also review and report on statutory other information published within the financial statements including the management commentary and the annual governance statement. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

21. We also review the content of the statutory other information for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

22. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Government Non-Domestic Rating Account are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2018/19.	£28.5 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£21.4 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. This has been calculated at 1% of planning materiality.	£0.25 million

Source: Audit Scotland

Timetable

24. The annual accounts timetable is outlined at [Exhibit 4](#). This has been developed in discussion with the Scottish Government. The ongoing uncertainty created by the pandemic and the current restrictions imposed means we may be required to make further changes to the timetable. We will continue to assess the timescales in dialogue with the Scottish Government and will keep the Audit and Assurance Committee updated with our audit progress.

Exhibit 4

Annual accounts timetable

Key stage	Date
Latest submission date of unaudited financial statements with complete working papers package	26 June 2020
Latest date for final clearance meeting with the Scottish Government	7 September 2020
Agreement of audited unsigned financial statements	9 September 2020
Issue of Annual Audit Report and proposed Independent auditor’s opinion	11 September 2020
Independent auditor’s report signed	23 September 2020

Internal audit

25. Internal audit is provided by the Scottish Government Internal Audit Directorate. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

26. We will report any significant findings to management on a timely basis.

Using the work of internal audit

27. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication.

28. We read all internal audit reports to inform our ongoing understanding of the Non-Domestic Rating Account, but we do not intend to place reliance on internal audit work in 2019/20 as we plan to take a fully substantive approach to the audit.

Audit dimensions

29. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

30. Due to the nature of the Non-Domestic Rating Account, we have assessed the extent of wider dimensions work applicable and concluded that a reduced scope, as outlined in the Code of Audit Practice, can be applied. This will focus on financial sustainability, financial management and governance and transparency. Value for money is concerned with using resources effectively and continually improving services. As non-domestic rates are used as part of individual local authorities' funding, the value for money dimension is not considered as part of this audit.

Financial sustainability

31. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years)

and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- whether the Scottish Government can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

32. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Scottish Government has arrangements in place to ensure systems of internal control are operating effectively for the preparation of the Non-Domestic Rating Account
- how the Scottish Government has assured itself that its financial capacity and skills are appropriate in preparing the Non-Domestic Rating Account
- whether the Scottish Government has established appropriate and effective arrangements for the prevention and detection of fraud and corruption in preparing the Non-Domestic Rating Account.

Governance and transparency

33. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Scottish Government can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance reports.
- the quality and timeliness of financial reporting.

Independence and objectivity

34. Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

35. The engagement lead for the Scottish Government Non-Domestic Rating Account is Michael Oliphant, Audit Director. Auditing and ethical standards require us to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Non-Domestic Rating Account.

Quality control

36. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and

legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

38. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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